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CHAPTER V

The Public Finances of the Republic of Austria

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THE public finances of Austria reflect the situation to which that country has been reduced by the Treaty of St. Germain. After the dissolution of the former economic unit of the Austro-Hungarian Monarchy, the Alpine provinces, lacking coal, mineral oils, etc., and chiefly dependent on importations from abroad for agricultural products and the most necessary commodities, remained with the newly founded Austrian Republic; while the larger part of the territories boasting of great riches in raw materials and manufactures fell to Czechoslovakia. Austrian manufactures are taking great pains to resume their former economic relations with the other Succession States, but industry and commerce continue to be much hampered in their development by reciprocal customs boundaries and restrictions on both import and export trade. And these difficulties, bad as they are, are outweighed by the terrible depreciation of the currency, which, on the one hand, causes the import trade to become one of the heaviest burdens on the public finances and national economy, and, on the other, compels the other countries to erect a customs frontier against the natural export tendency of Austria. As long as the Austrian currency is not raised to a standard averaging from 7 to 8 kronen relatively to one Swiss franc, by the help of credits granted by the League of Nations, Austria will not be in a position to exchange goods with the surrounding National Succession States on the same terms as Czechoslovakia and Germany.

So long as these conditions continue, a revival of Austrian economic energies is quite out of the question. All measures concerning credits which do not tend to raise the kronen exchange, *previous* to the introduction of a new currency, to the above-named standard, or at least to a standard considerably facilitating trade and commerce (from about four to five kronen to one Swiss franc), must in the end become a vain sacrifice and could have but a transient effect. The awful consequences of the deep currency depreciation are demonstrated by the Austrian budget.

THE BUDGET

The currency depreciation is one of the principal causes of the appalling height of the deficit and the expenditure figures. According to the latest budget for the second half of 1921, the balance between the relation of revenue and expenditure appears in Table I.

The figures of the table alone serve to show the cause to which the half-yearly deficit of 25.4 billions kronen (yearly deficit over 50 billions) is to be ascribed. It is the consequence of the currency depreciation and of the dearth of imports occasioned by it. The loss comes in consequence of the deterioration of the rate of exchange which has been calculated at the rate of 100 Austrian kronen equal to one Swiss franc, though the rate of exchange has since become still more unfavorable in spite of the action planned by the League of Nations. The result has been a loss of 10,380 millions kronen on the government

TABLE I

RELATION BETWEEN REVENUE AND EXPENDITURE, JANUARY 7-DECEMBER 31, 1921

Million Kronen Percentage

I. Expenditure

Loss in consequence of the deterioration of the rate of exchange:	1 State-monopolies.....	2,184.16	
	2 Railways.....	1,755.69	
	3 Public debts.....	2,337.70	
	4 Government contribu- tion to the private pre- war debts according to the Treaty of St. Ger- main.....		16.2
		1,960.00	
	5 Government contribu- tion towards the pay- ment of foodstuff prices.	10,286.00	21.0
	6 Other government con- tributions in adminis- tration and enterprises.	395.45	0.8
	TOTAL.....	18,913.00	38.0
National debt services (interest and redemption).....		2,282.30	4.0
Civil service and pensions fund.....		14,117.10	29.0
	TOTAL.....	35,312.40	71.0
Other sundry expenditure.....		14,184.10	29.0
Total of expenditure.....		49,496.50	100.0

Million Kronen Percentage

II. Gross-revenue

Capital levy.....	500.00	2.0
“Income tax” (assessed according to the income of the tax payer).....	868.60	
	409.30	5.0
Other direct taxes.....		
Customs.....	2,895.30	12.0
Excise.....	790.10	3.0
Stamps and other similar duties.....	1,962.00	8.0
TOTAL.....	7,425.30	30.0
Monopolies.....	5,194.00	22.0
Government enterprises.....	6,530.50	27.0
Export licenses.....	900.00	
Realization of government property and loans.....	2,033.00	21.0
Other revenues.....	1,992.30	
Total of revenue.....	24,075.10	100.0
Deficit.....	25,421.40	

imports of foodstuffs; *i.e.*, the government paid per head of the population in one year, 3,200 kronen, in order to reduce the price of foodstuffs (flour, meat, fat, milk). The low exchange rate is also to be held responsible for losses on other imports, especially on coal for the railways and material for the tobacco monopoly, losses amounting to 8,633 millions kronen in half a year. Altogether, 18,913 millions kronen in half a year and 37.8 billions in a year, that is 38 per cent of the total expenditure or 74 per cent of the deficit, is accounted for by these losses. Could the Austrian krone be raised to two Swiss centimes the above named sum of 18.9 billions would be reduced to about 9.456; with a rise to four or five Swiss centimes, the loss in consequence of the deterioration of the exchange would play no part at all in the budget. This shows quite clearly the importance of a serious and efficient foreign credit action.

CIVIL SERVICE EXPENDITURE

But the most distressing effects of the currency depreciation have fallen on the civil service and pensions expenditure which has reached a pitch quite disproportionate to a small country. This division of the expenditure, including the salaries of employes and workmen in public enterprises, amounts to more than 14 billions kronen for half a year or to 28 billions kronen for the whole year. As it has since been found necessary to raise salaries, this sum added to the government contributions towards the civil service expenditure of the provinces and their capitals, will actually come to 37 billions kronen a year. However, one must not forget that a large part of the civil service expenditure falls not to the share of the government administration but to national enterprises, as the whole railway system has been

nationalized. Of the above mentioned 14 billions for the six months estimated, 4,467 millions fall to the share of the railways, 1,146 to that of the post, telegraph and telephone, 1,050 to the subsidies for the provinces and municipalities. Even the army estimate (30,000 men and officers) which amounts to 914 millions half-yearly is included in this figure. All these expenditure figures can be rightly understood only when compared with the dearth provoked by the currency depreciation.

On the average, the civil servants' pay still falls short of the often centupled advance in price for all commodities as compared with that ruling before the War, particularly for clothing, shoes and also most foodstuffs. Accordingly, the standard of life of those classes engaged in civil work has fallen, while at the same time other classes more favored by the ruling circumstances, farmers especially and capitalists making money transactions or trading in wares, were able to realize great profits. The brain workers have to bear the brunt of this hard struggle and with them suffer the principal supporters of the intellectual and social reconstruction of Austria. The following data may serve to illustrate this injustice. The Revolution has encouraged certain despotic tendencies in the social policy which have caused a hardly justifiable re-grouping of the economic conditions. The salary of a second waiter has been multiplied by 62; that of a government official of the lowest rank by 37; that of a departmental head with university training in one of the ministries, or of a professor in the university only by 16, and that of an official of the fourth rank, chief of a department in a ministry, by 11. These figures show distinctly enough the economic disadvantage under which the brain work-

ers, the persons most indispensable to the organization of the task of reconstruction of the country, labor.

No doubt, the number of civil servants is far too large for so small a country; *i.e.*, 264,467, of which the railways supply 72,951; the post, telegraph and telephone, 32,201; the army, 30,000. The families included in this figure amount to 751,564 persons out of a total population of 65,000,000. A considerable part of them is engaged in the national transport system, which, it is true, works with a great deficit, or the monopoly plants for tobacco and salt and in the "national industry works," an enterprise in the form of nationalized economies. It will, however, prove impossible to reduce the staff of civil servants before a general reconstruction that will afford opportunities for these employes to exchange their present government employments for private positions. Likewise, a cutting down of salaries and wages can follow only upon the effect of an adequate improvement in the rate of exchange, making itself felt in a fall of prices for all commodities. Compared to the civil service expenditure the other real expenditure on administration is of no great importance (14 billions kronen in the half-year), especially as 1,829 millions are included for grants to the finances of the provinces and municipal districts. The estimate for education names a sum of only 403 millions kronen, that is eight-tenths of one per cent of the total expenditure for the six months' budget.

MONOPOLIES AND NATIONAL ENTERPRISES

Although all articles produced under government monopolies have gone up so high, and the railway tariffs and postal rates have been raised so far as to make them a heavy burden for

economic life, it is only the so-called "fiscal monopolies," tobacco, salt and saccharine, which yield positive and not inconsiderable returns; other national enterprises, as railways and post, are worked at a loss. This loss is to be attributed chiefly to the enormous sums spent on wages and raw materials, owing to the depreciated currency, quite aside from undeniable mistakes in the management of the works, defective or unbusinesslike organization and the often irrational employment in which the staff are engaged. Table II gives the prevailing net profits and losses for figuring in the six months estimates (that is, after deducting the costs for the staff from the expenditure figures) in millions of kronen.

The net revenue of the monopolies is therefore counterbalanced by the government enterprises, so that the total deficit amounts to 4.6 billions in half a year. The most serious item on the side of liabilities is furnished by the state railways, the deficit of which amounts to 9 billions a year, less the offset formed by the railway traffic taxes, which though not yet booked among the receipts are expected to run up to roughly speaking 2 billions kronen. The huge deficit is principally due to the large expenses for coal and other materials, which are computed at not less than 1,756 millions kronen half-yearly. The low rate of exchange must also be made responsible for 2,184 millions kronen lost half-yearly on the gross proceeds of the monopolies (for tobacco alone, 2,164 million) over the purchase of raw materials from abroad. This together with the high expenditure for salaries and wages accounts for the bad returns on the national enterprises.

TAXES

According to the huge increase of the expenditure, the pressure of taxa-

TABLE II

NET PROFIT AND LOSS IN GOVERNMENT MONOPOLIES AND NATIONAL ENTERPRISES

		Profit	Loss	Stand of capital on December 31, 1921
I. Monopolies				
Tobacco	723.1	....	8,564.1	
Salt	228.6	....	376.4	
Saccharine	100.0	....	3.0	
Mineral Waters	1.2	....	....
Lotteries	38.7	....	....
TOTAL	1,081.6	....	8,943.5	
II. Enterprises				
Forests, estates	217.7	....	2,810.0	
Mines belonging to the state	6.9	....	119.3	
Railways	....	4,599.0	78,665.6	
Post	....	353.7	39.9	
Telegraph and Telephone	....	144.3	2,491.1	
Mines	14.8	....	576.0	
Industrial plants	....	743.9	3,573.4	
Sundry smaller enterprises (printing offices, theatres run to the state, etc.)	33.3	146.5	897.0	
TOTAL	1,354.3	5,978.4	98,115.8	
Net loss	....	4,624.1		

tion had to be applied to the utmost extent. Among the provisions to meet the extraordinary demand, the "single great capital levy," decreed on July 21, 1920, ranks first. This tax is levied on all unencumbered chattel, real and personal, according to a progressive scale, and has to be paid by individuals as well as by corporate bodies. The scale for individuals slides from 3 per cent on a capital of 30,000 kronen to 65 per cent on 10 millions kronen and over. The tax on the greater part of the capital property will average from 30 to 45 per cent, while the joint stock companies have to pay a uniform tax of 15 per cent, beside the high taxation for earned income. The shares in the shareholders' hands are exempt from the tax. The levy on capital is designed partly for the payment of war debts, partly for the purchase of

foreign values and the diminution of the circulation of bank notes. The capital levy is expected to yield a return of about 12 billions kronen, about 8 billions having already been received as a privileged advance payment in the first half of 1921. This sum was used for the payment of debts as advance payments were permitted partly in war loans and treasury bills. The further returns of the capital levy will come due during the coming years and are preliminately at 500 millions kronen for the first half of 1921.

Beside the capital levy, destined to meet the extraordinary expenditures, the direct profit tax and especially the "income tax," assessed according to the income of the tax payer, have been raised as far as possible to increase the ordinary revenue. The burden of this rise in taxes is felt all

the more as it coincides with a heavy struggle for existence; the manufactures have to fight in order to be able to keep pace with upward movement of wages and prices for raw materials. The greatest part of the direct taxation involves the inhabitants of towns and, in the first degree, the crafts and manufactures and the profits of commercial and banking concerns with a fixed abode. It is much to be regretted that for technical reasons innumerable intermediary profits could not be taxed. The classes mentioned have to bear the whole burden of the government taxes.

So far, the farmers have had to contribute a small share consisting of a perfectly inadequate ground and house tax (62 millions kronen yield 3 millions of taxes a year) added to an income tax, the collection of which in the country side is not carried out energetically enough. Out of a half yearly total of 1,778 millions kronen at which the direct taxes are preliminated, one-half (868.6) is furnished by the considerably raised income tax. According to the scale for 1921, the tax rises progressively from about 1.5 per cent on an income of 30,000 kronen to 60 per cent on all incomes exceeding 1.2 millions kronen. As all incomes accruing from either house or landed property, chattels, personal or business, are further encumbered with profit duties on which an extra government tax of 100 per cent is charged, it may easily be gathered that Austria has reached the extreme limit of the tax payers' capacity. A remedy can be found only in a proper taxation of the farmers' income and an energetic, though technically difficult effort to make all those dealers and speculators contribute to the national finances who, in drawing huge profits out of their undeclared transactions in money or wares, give an ever renewed impetus

to quite unjustifiable rises without doing any useful economic work.

The excises have also been very much raised, *e.g.*, the wine tax by 400 kronen a hectoliter; the beer tax by 20 kronen on each degree of beer wort per hectoliter; the spirits tax by 100 kronen per liter of alcohol; the sugar tax by 160 kronen per 100 kilogram; but the total excise revenue (amounting to about 790 millions kronen half-yearly) lags far behind that of the direct taxation, seeing how little the population can spare for these articles. The stamp duties are also very high and mean a heavy charge on the whole commercial life which is further augmented by a duty on the transfer of foreign exchanges and values and by the railway transport duties. The latter (averaging 30 per cent on the passenger and freight rates and consequently going up simultaneously with these rates which are many times what they were before the war) are preliminated at 1,015 millions kronen per half year; the stamp taxes, at 947 millions.

A very considerable portion of Austria's revenue is contributed by the customs, to the disadvantage, it is true, of the consumers and of the producers, as the prices of nearly all necessities of life have been very much raised by the customs duties. As these have to be paid in gold or in an equivalent for gold, the government levies additional duties when the customs are paid in paper money; since May 1, 1921, these have been raised a hundred-fold on some articles, and to one hundred and thirty-fold on the nominal gold customs duties for articles having to pay excise fiscal custom, such as coffee, tea, rice. Therefore, the total revenue of the customs is preliminated at not less than 2,895 millions kronen for six months or 5,790 millions per annum. These

costs on being added to the prices of commodities, occasion an increase of wages. In spite of the greatest exertion, the total of the taxes collected amounts to not over 30 per cent of the total gross revenue and 14.8 per cent of the total expenditure, while monopolies and national enterprises play by far a greater part on the assets as well as on the liabilities side of the budget.

While since December, 1920, the increase of the railway tariffs, postal rates, stamp duties and additional customs duties brought a surplus revenue of 9.6 billions kronen, and while about 3 billions could be saved by the gradual reduction of the government contributions towards the cost of food-stuffs, a new railway tariff for passengers and freights introduced on July 1, 1921 will yield a surplus revenue of 6 billions per annum and an automatical surplus revenue of the traffic duties of 1.4 billions as preliminated in the budget. This was necessitated in order to allow a raise in the salaries of the government officials. Meanwhile, the expenditure has been augmented quite disproportionately by permitting higher wages. The deficit of the coming budgetary period will consequently be greater if the currency depreciation should continue. In order to provide for this expenditure a new increase of the fiscal customs tariff, stamp duties, the duty on the transfer of stocks and shares, and on tobacco prices, and further a radical reduction of the government contributions towards the flour and bread prices is planned. The latter measure will be felt very severely by the consumers.

THE NATIONAL DEBT

No less a burden than that of the expenditure is the capital debt of a country with a population of six millions whereof nearly one-third live in

Vienna and the provincial capitals. This is composed of the public debts of former Austria carried over to the account of the Republic of Austria as dictated by the Treaty of St. Germain and of the new national debt of the Republic of Austria. By the terms of the Peace Treaty the Austrian Republic, as the lawful successor to the old Monarchy and supposed "accomplice" in the Great War, has to bear the full burden of her predecessor's debts. They form a list of figures which must act as a drag on the work of reconstruction from the very outset and tend only to demand greater sacrifices for this purpose on the part of the foreign powers. On June 30, 1921, the public debt of former Austria (pre-war and war debts of the Monarchy) amounted to 28,340 millions kronen, nominal value, to which must be added nearly as high a sum for the augmentation of the debt caused by the currency depreciation, *i.e.*, 24,859 millions. Consequently, that part of the debt of former Austria taken over by the Austrian Republic burdens that country with no less than 53.2 billions kronen. Nevertheless, the nominal national debt of former Austria has been reduced, thanks to redemptions made by the new Austrian Republic, by as much as 9,694.5 millions (from a total of 82,196 millions on June 20, 1920, to 72,501 millions nominal value on June 30, 1921). This reduction was managed by the war loans, paid into the treasury by way of a levy on capital, and by the redemption of the war profits tax (about 9 billions) and the "N.U.M. credit" granted by the Netherlands. In the meantime, the currency depreciation of the krone to one-third below last year's level has alone sufficed to increase the burden of the debt despite all redemptions. A reduction or redemption of the national debt would seem impossible

without a thorough reform of the currency. Again we may see that the sole means of reconstruction is a raise of the rate of exchange, whereby the debt would at least be reduced again to its nominal level.

The total of Austria's *new* public debt already amounted to 59,259 millions kronen on June 30, 1921, to which sum must be added the foreign credits for foodstuffs and raw materials, as far as the accounts for them have already been settled and met by bonds. Computed at their nominal value, *i.e.*, at par before the War, they come to 464 millions kronen in gold, but to 57,434 millions kronen if computed at the present value of the kronen and considering the difference in the rate of exchange. Those foreign credits of at least 27 billions for which so far no bonds have been issued on the part of Austria are not taken into account any more than the further currency depreciation which occurred after June 30, 1921. So the debts run up by Austria herself amount to 117 billions kronen during the first two and one-half years of this Republic's existence; adding to this sum, the share of the old Austrian debts allotted to her by the Peace Treaty, we arrive at a total charge of 170 billions kronen (28,333 kronen per head of the population). The interest and redemption service for this debt requires, altogether, 4,620 million kronen half-yearly (that is, 9.2 billions per year). On the other side of the scales, we find the national property of the Austrian Republic,

although it is not available, and, further, the various assets of the state itself. The latter are composed of the capital invested in the monopolies and national enterprises (estimated at about 96 billions kronen) and of all the other movable and immovable property under government administration (public office, buildings, inventories, etc.) for which no reliable basis for valuation is available.

OTHER OBLIGATIONS UNDER THE TERMS OF THE PEACE TREATY OF ST. GERMAIN

But to fill the cup to the brim, Austria has been placed under the following additional obligations, resulting from the Peace Treaty, for one-half of the year 1921: balance of costs for the Vienna Section of the Reparations Commission, nominal value kronen, 250,000, *i.e.*, 32.8 million kronen under prevailing conditions (3.75 millions nominal value or 303.8 million kronen for the corresponding half of 1920); further, a government indemnification of two billion kronen granted to Austrian debtors for losses incurred through their being bound over to redeem their foreign private pre-war debts up to former nominal value, and for the liquidation of Austrian property abroad; 200 million kronen for delivering up materials of warfare; finally, 1.4 million kronen to defray the costs of the International Danube Commission: altogether, a total surplus charge of 2,238 million kronen.